



**DATE:** April 20, 2015

**TO:** Charter Commissioner Members

**FROM:** Lori Economy-Scholler, Chief Financial Officer

**RE:** Proposed Charter Change-General Obligation Bonding Authority

**CC:** Mayor, City Council, and City Manager

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***Attachments:***

- A. March 23, 2015 Council materials for the proposed charter change.
- B. April 6, 2015 Council materials for the proposed charter change.

***Discussion:***

On March 23 and April 6 the City Council had the proposed charter change for general obligation bonding authority before them to discuss and provide staff with direction. There are two areas the Council has requested the Charter Commission to discuss and consider:

1. Currently shown within the proposed charter change for general obligation bonding authority is a 30 day reverse referendum requirement. Council would like the Charter Commission to discuss and consider:
  - a. Leaving the number of days at 30, or
  - b. Changing the number of days to 45, or
  - c. Changing the number of days to 60
2. Currently shown within the proposed charter change for general obligation bonding authority is a requirement that future approval of issuing general obligation bonds would require approval by 5 of 7 council members. Council would like the Charter Commission to discuss and consider:
  - a. Leaving the required approval at 5 of 7 members, or
  - b. Changing the required approval to 6 of the 7 members.

The Charter Commission could also consider the following change:

3. Currently not shown within the proposed charter change for general obligation bonding authority is a ceiling on the principal amount of bonds to issue at any one time. Council would like the Charter Commission to discuss and consider:
  - a. Leaving the proposed charter change for general obligation bonding authority silent regarding the maximum principal amount of bonds to issue, or
  - b. Changing the proposed charter change for general obligation bonding authority to include a maximum amount of bonds to be issued at any one time.

[PROPOSED NEW SECTION OF THE CHARTER OF THE CITY OF BLOOMINGTON],  
as drafted by John Utley of Kennedy & Graven, bond attorney for the City.

**Sec. 7.17. General Obligation Bonds.** By a vote of 5 of its members, the council can adopt a resolution to authorize the issuance of general obligation bonds that pledge the full faith and credit and taxing powers of the city. The general obligation bonds can be issued on such terms and conditions the council determines, without obtaining the approval of a majority of the electors voting on the question of issuing such general obligation bonds. The city can pledge to the payment of the general obligation bonds any other available revenues or assets of the city. The general obligation bonds can be issued for a public purpose to finance any capital improvement and related costs including, but not limited to, interest on the bonds, the costs of feasibility studies, design, and plans and specifications; publication costs; costs of issuance; and other capital costs of any capital improvement. The general obligation bonds shall not be issued for at least 30 days after the publication in the official newspaper of the city of the council resolution determining to issue such bonds; and, if before the expiration of such 30 days, a petition requesting an election on the proposition to issue such bonds is filed with the city clerk of the city and such petition is signed by registered voters of the city equal to the lesser of 5 percent of the registered voters of the city as of the last general election, or 2,000 registered voters, then the city may not issue such general obligation bonds until the proposition has been approved by a majority of the votes cast on the question at a regular or special election.

***Objective:***

The objective of the proposed charter change for general obligation bonding authority is to provide the Council with another tool that would make financing capital improvements within the City simpler and save the city interest costs compared to other financing tools. The specific capital improvements that have been discussed are:

- Trail Improvements
- Park Facilities and Park Equipment ...e.g. playground equipment
- Community Center Facility
- Street Reconstructions without Special Assessments.

For each of these types of capital improvements there are alternative bonding tools allowed under state statutes but they are not as straight forward or as cost effective as the proposed charter change for general obligation bonding authority.

- **For Trails, Park Facilities and Park Equipment-** The City could establish numerous tax abatement districts, similar to tax increment districts throughout the City to finance the bonding that may occur for these capital improvements. Under the Tax Increment process, in addition to the City portion, the City can collect the County and School District portions of the tax. However, under the Tax Abatement process the County and School district have the option to opt out of the collection process. In the existing Tax Abatement area within the City to finance transportation improvements, both the County and School Districted have opted out of contributing any revenue. So financing through Tax Abatement Bonds for trails or parks is not a cost effective or financially efficient method.
- **Community Center Facility-** Through existing state statutes the City could request the Port Authority to issue Lease Revenue Bonds. In the example provided to the Council, Springstead ran two bond scenarios using today's rates (Chaska just issued a lease revenue bond). The terms Springstead used were project costs of \$30 million for a Community Center and duration of 20 years. In this example the actual interest rate difference between lease revenue bonds and general obligation bonds was approximately 50 basis points. The most significant difference was that the Lease Revenue Bonds would have interest costs over the 20 year duration \$1.818 million greater compared to the General Obligation bonds interest costs. Any future rate difference is dependent on the bond market on the day the bonds are sold.
- **Street Reconstruction without special assessments-** Through existing state statute 475.58, subdivision 3b the City could issue Street Reconstruction bonds. Street Reconstruction bonds, have several constraints that the first draft (March 23) of the proposed charter change for general obligation bonds did not have. Street Reconstruction bonds as currently authorized in statute, require a 30 day reverse referendum and requires the bonds to be approved by a vote of all of the members of the governing body present at the meeting. As of today, the only difference between the proposed charter change and existing law in state statute 475.58 is the number of votes required to approve the street reconstruction improvement. Please note that there is proposed 2015 legislation to change the required approval votes to a majority of the governing body. Should this legislation pass in 2015 for Street Reconstructive Bonds statute 475.58, it would be more advantageous for the City to bond under the revised existing statute than bonding under the proposed charter change as the number of required approval votes is fewer.

### ***Bonding Types:***

To assist with the Charter Commissions discussion and consideration of the proposed charter change for general obligation bonding authority it may be helpful to provide a listing, description, and general restrictions of bonding types allowed within Minnesota Statutes. A summary table is also provided below.

- **General Obligation Permanent Improvement Revolving Bonds, (MS 429)** – The City issues these types of bonds annually for the Pavement Management Program transportation reconstruction activities. The City’s policy is that 25% of the principal is special assessed to property owners. There are a variety of other types of capital improvement activities qualified for this type of financing, but to issue these types of bonds per statute they must include special assessments for at least 20% of the amount of bonds issued.

Requirements include:

- At least 20% of the principal amount must be special assessed to the benefited property owners.
  - A public hearing ordering the project must be held before bonds can be sold.
  - A public hearing establishing the assessments must be held before or after bonds are sold.
  - Advertisement for a public hearing must be published in the official newspaper at least ten days but not more than 28 days prior to the hearing.
  - Approval requires a majority of the governing body in attendance.
  - Not subject to reverse referendum requirement.
  - Obligations issued under this subdivision are not subject to the debt limit of the municipality and are not excluded from net debt.
- **General Obligation Capital Improvement Bonds (CIP), (MS 475.521)** – The City issued this type of debt in 2010 to refinance the Port issued Lease Revenue Bond for the center section of Civic Plaza. CIP bonds are normally for the acquisition or betterment of public lands, buildings or other improvements for the purpose of a city hall, town hall, library, public safety facility, or public works facility. An improvement must have an expected useful life of five years or more to qualify. Capital improvement does not include light rail transit or any activity related to it, or a park, road, bridge, administrative building, other than a city or town hall, or land for any of those facilities. The City cannot use this type of debt to fund facilities like Motor Vehicle, Public Health, a Community Center or Court Facilities just to name a few.

Requirements include:

- A municipality must adopt a capital improvement plan. The plan must cover at least a five-year period beginning with the date of its adoption. The plan must set forth the estimated schedule, timing, and details of specific capital improvements by year, together with the estimated cost, the need for the improvement, and sources of revenue to pay for the improvement.
- Advertisement for a public hearing in the official newspaper at least fourteen days but not more than 28 days prior to the hearing.
- Information on the 30 day reverse referendum is included in the advertisement for public hearing.
- The bonds must be approved by a vote of at least two-thirds of the members of the governing body (5 of 7 members).

- Obligations issued under this subdivision are subject to the debt limit of the municipality and are not excluded from net debt.

**General Obligation Fire Pension Bonds (MS475.52 subd 6)** –The City issued Pension bonds in 2010 to assist with the 2010 required Bloomington Fire Relief Association’s pension obligation. Due to the restrictions normally associated with these types of bonds, the Government Finance Officers Association (2015) has issued an “Advisory” cautioning municipalities in the issuance of this debt.

Requirements include:

- A municipality must obtain consent from the Bloomington Fire Relief Association’s board of trustees to issue bonds for this purpose.
  - Advertisement for a public hearing published in the official newspaper at least ten days but not more than 28 days prior to the hearing.
  - Bonds not subject to reverse referendum requirement.
  - The bonds must be approved by a majority vote of the governing body in attendance.
  - Obligations issued under this subdivision are subject to the debt limit of the municipality and are not excluded from net debt.
- **General Obligation Street Reconstruction Bonds, (MS475.58)** – Can be used for street reconstruction including street widening, curb and gutters, and interchanges must be for safety reasons.
- Requirements include:
- A municipality must adopt a street reconstruction plan. The plan must cover at least a five-year period beginning with the date of its adoption. The plan must set forth the estimated schedule, timing, and details of specific capital improvements by year, together with the estimated cost, the need for the improvement, and sources of revenue to pay for the improvement. Generally, the existing Pavement Management Plan for reconstruction would become more formalized.
  - Advertisement of a public hearing published in the official newspaper at least ten days but not more than 28 days prior to the hearing.
  - Information on the 30 day reverse referendum is included in the public hearing advertisement.
  - Approval requires that the bonds must be approved by a vote of all attending members of the governing body.
  - *2015 proposed legislation would change the approval requirement to just majority members of the governing body (4 of 7 members).*
  - Obligations issued under this subdivision are subject to the debt limit of the municipality and are not excluded from net debt.
- **Abatement Bonds (MS469.1813)** – These bonds are for the purpose of public improvements that increase or preserve the tax base, provide employment opportunities or acquire or convey land for economic development purposes.

Requirements include:

- Cities must hold a public hearing to establish the abatement district.
  - Advertisement of a public hearing published in the official newspaper at least ten days but not more than 28 days prior to the hearing.
  - Not subject to reverse referendum requirement.
  - Approval requires the bonds must be approved by a vote majority of the governing body in attendance.
  - Obligations issued under this subdivision are not subject to the debt limit of the municipality and are not excluded from net debt.
- **Lease Revenue Bonds, (MS465.71)** – In 2000 the Port Authority issued Lease Purchase Bonds to finance the center section of the Civic Plaza. In 2004 legislation changed that would allow these types of facilities to be financed by General Obligation CIP bonds. In 2010, the City replaced the original Lease Revenue debt due to interest savings associated with issuing debt as General Obligation Capital Improvement Bonds.

Requirements include:

- Advertisement of a public hearing published in the official newspaper at least ten days but not more than 28 days prior to the hearing.
  - Currently, not subject to reverse referendum requirement.
  - 2015 pending legislation if enacted would make this type of debt subject to a 30 day reverse referendum.
  - The bonds must be approved by a majority vote of the governing body in attendance.
  - Obligations issued under this subdivision are not subject to the debt limit of the municipality and are not excluded from net debt.
- **Revenue Bonds** – These types of bonds are for capital improvements related to normal activities of the city that generate revenue through a dedicated source to pay the debt service
    - Debt service is secured by dedicated revenue streams.
    - Debt structure requires debt service reserves and coverage.
    - Advertisement of a public hearing published in the official newspaper at least ten days but not more than 28 days prior to the hearing.
    - The bonds must be approved by a majority vote of all attending members of the governing body.
    - Obligations issued under this subdivision are not subject to the debt limit of the municipality and are not excluded from net debt.
- **Utility Revenue Bonds, (MS 444)** – These types of bonds are for capital improvements related to normal enterprise funds like water, sewer, and storm related activities. In addition, areas like the Ice Garden or Golf capital improvements would be included.
    - Debt service is secured by dedicated revenue streams.

- Debt structure requires debt service reserves and coverage.
  - Advertisement for a public hearing published in the official newspaper at least ten days but not more than 28 days prior to the hearing.
  - The bonds must be approved by a majority vote of all attending members of the governing body.
  - Obligations issued under this subdivision are not subject to the debt limit of the municipality and are not excluded from net debt.
- **Proposed General Obligation “Charter Bonds”** – The City can issue these types of bonds as needed for capital improvements.

Requirements include:

- Advertisement of a public hearing published in the official newspaper at least ten days but not more than 28 days prior to the hearing.
- Statute requires approval by only a majority of governing body in attendance.
- *However, the proposed charter change for the General Obligation Bonding Authority requires 5 of 7 members. The Council and Charter Commission may impose greater restrictions than required by statute.*
- Under statute, this type of bond is not subject to a reverse referendum requirement.
- *However, the proposed charter change for the General Obligation Bonding Authority does require this type of debt to be subject to a 30 day reverse referendum. The Council and Charter Commission may impose greater restrictions than required by statute.*
- Obligations issued under this subdivision are subject to the debt limit of the municipality and are not excluded from net debt.

The listing of debt instruments above are portrayed in the table following. This table does not encompass every debt structure available under Minnesota Statutes but it does list out the types of debt the City has issued or has discussed issuing over the past few years.

### ***Summary Table of Types of Debt- Discussion Areas Only Highlighted***

<b>Bonding Type</b>	<b>Subject to 30 Day reverse referendum</b>	<b>Approval Requirements</b>	<b>Subject to Statutory Debt Limit</b>
<b>GO Improvement Bonds</b>	<b>No</b>	<b>Majority</b>	<b>No</b>
<b>GO Capital Improvement Bonds</b>	<b>Yes, 30 days</b>	<b>5 of 7 members</b>	<b>Yes</b>
<b>GO Fire Pension Bonds</b>	<b>No</b>	<b>Majority</b>	<b>Yes</b>
<b>GO Street Reconstruction Bonds</b>	<b>Yes, 30 days</b>	<b>Unanimous, with 2015 Legislation pending change to just "Majority"</b>	<b>Yes</b>
<b>Abatement Bonds</b>	<b>No</b>	<b>Majority</b>	<b>No</b>
<b>Lease Revenue Bonds</b>	<b>No, with 2015 Legislation pending change to 30 days</b>	<b>Majority</b>	<b>No</b>
<b>Revenue Bonds</b>	<b>No</b>	<b>Majority</b>	<b>No</b>
<b>Utility Revenue Bond</b>	<b>No</b>	<b>Majority</b>	<b>No</b>
<b>Proposed GO Bonding Authority "Charter Bonds"</b>	<b>Yes, 30 days (however not restricted under statutes)</b>	<b>5 of 7 members (however, statute only requires majority)</b>	<b>Yes</b>

### ***Other Background to Consider***

#### Existing Debt and Capacity-

The City of Bloomington received the first Aaa bond credit rating from Moody's in 1998, Standard and Poor's AAA was received in 2000 and Fitch rating services AAA in 2004. The City is only one of 27 municipalities of 19,000 nationwide that has this distinction. The City consistently has exercised conservative fiscal discipline and maintains low per capita debt ratios compared to state imposed debt limits. The three credit rating agencies watch very closely these ratios when evaluating each bond sale. The primary credit areas of evaluation are:

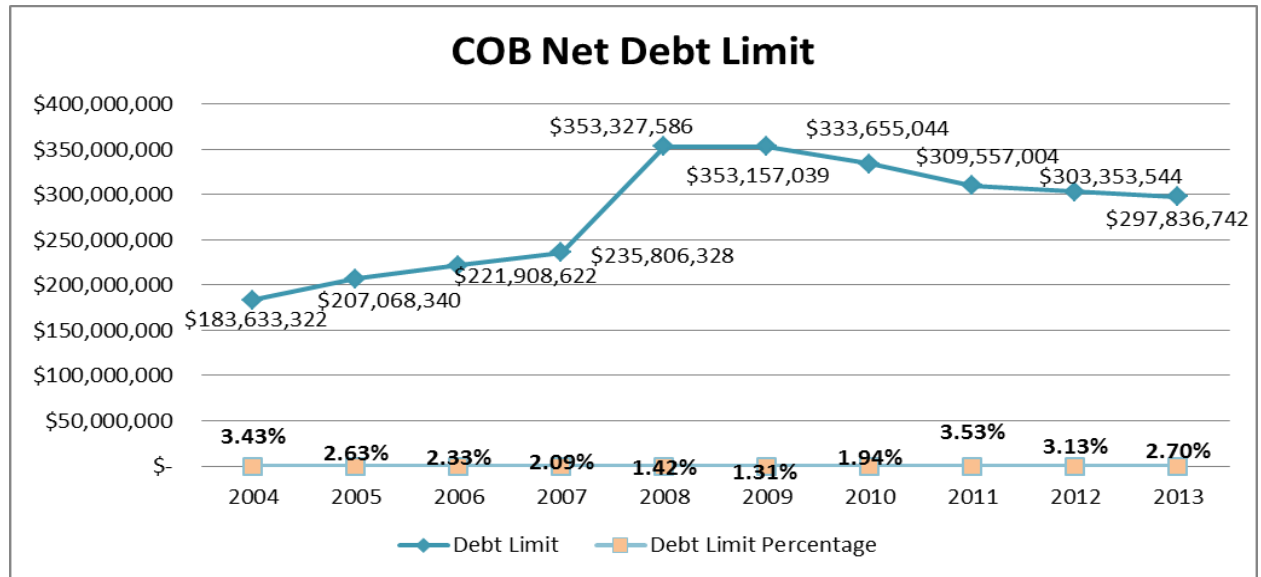
- Economic – trends and diversity
- Debt – structure and burden
- Financial – operations and flexibility
- Management – policies and flexibility, and
- Legal – bond security and flexibility

The first graph (Graph #1) below reflects the maximum amount of direct debt the City could have outstanding calculated on the city's tax base. For 2013 the total amount of outstanding direct debt (debt paid only from tax levy) could be at \$297 million. As shown below the City is utilizing only 2.7% or approximately \$8 million of the statutory capacity. The proposed charter change for General Obligation Bonding Authority is debt that would be considered direct debt paid solely through a tax levy. Two additional graphs are included to

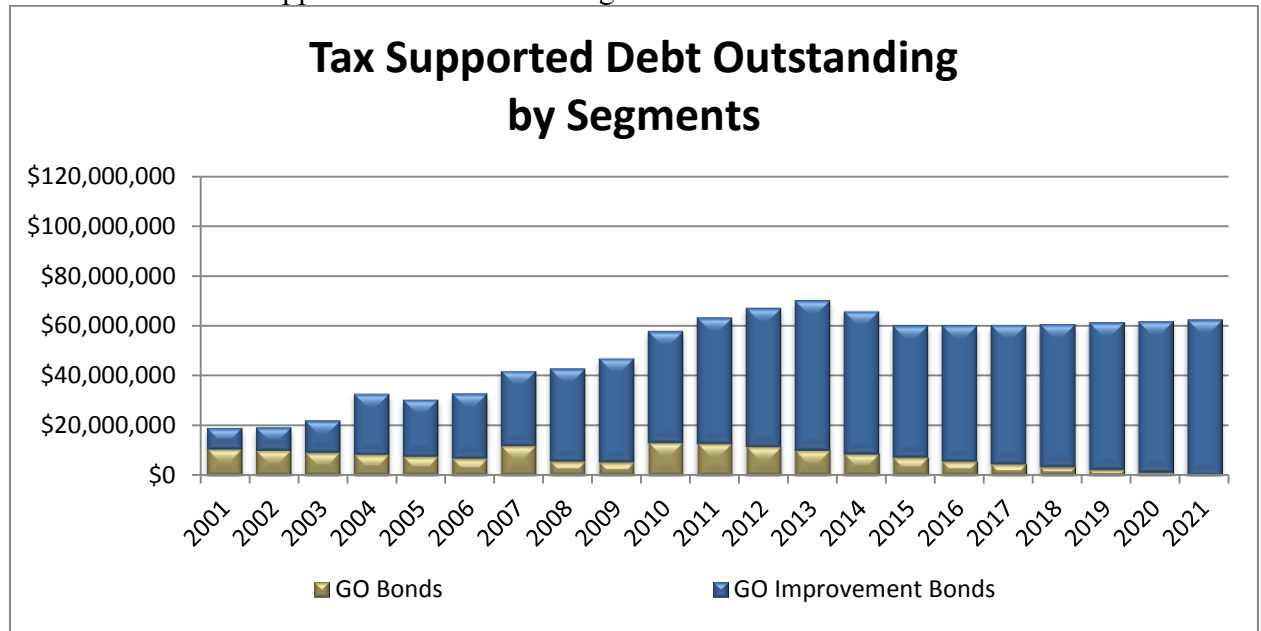


provide greater context. Graph #2 is the Tax Supported Debt Outstanding. Graph #3 is the total City, HRA, and Port debt currently outstanding and anticipated in the next five years.

GRAPH #1 – Net Debt Limit

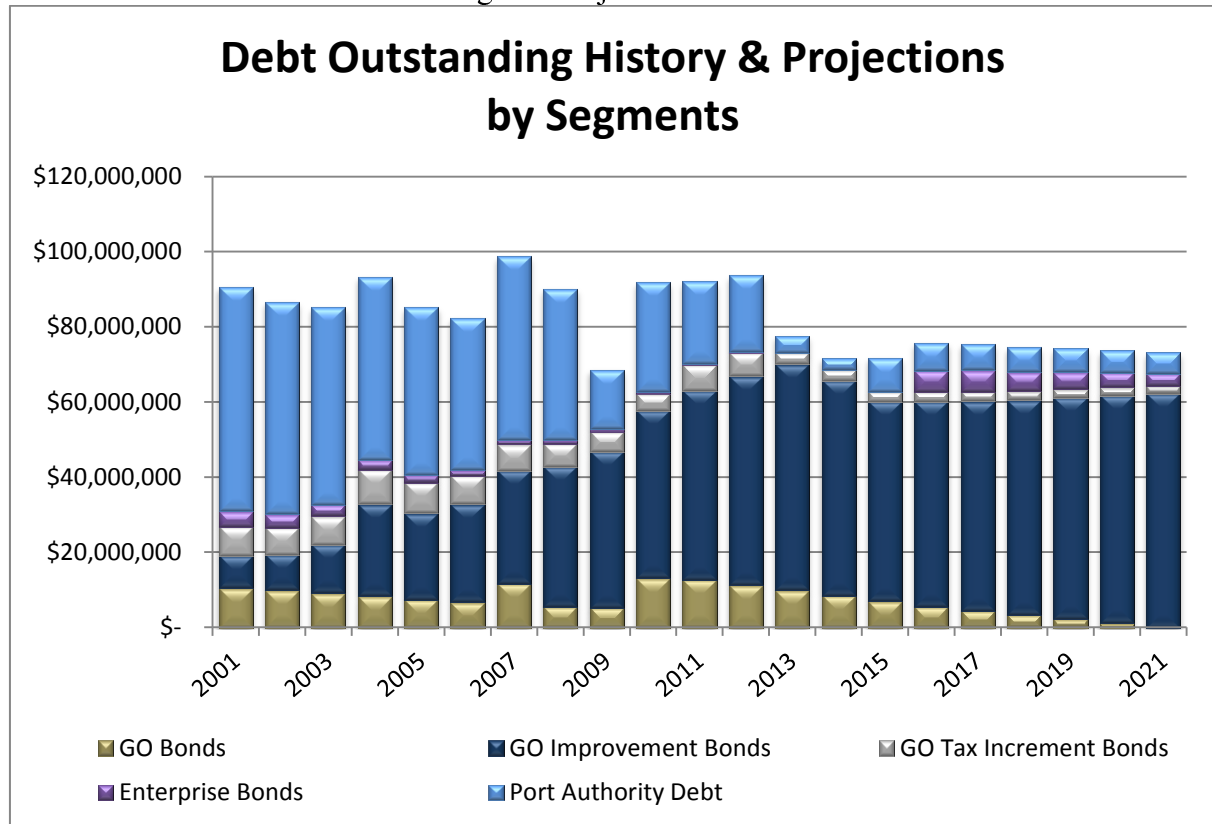


GRAPH #2 – Tax Supported Debt Outstanding



Standard and Poor's has developed a computer application consisting of their rating categories. Springstead, utilizing this application for Bloomington did a stress test on the City's credit rating based only on the amount of debt outstanding and potential debt to be issued (all other factors remain exactly the same). This stress test revealed that the City has considerable financial capacity to issue debt without negatively impacting the credit rating.

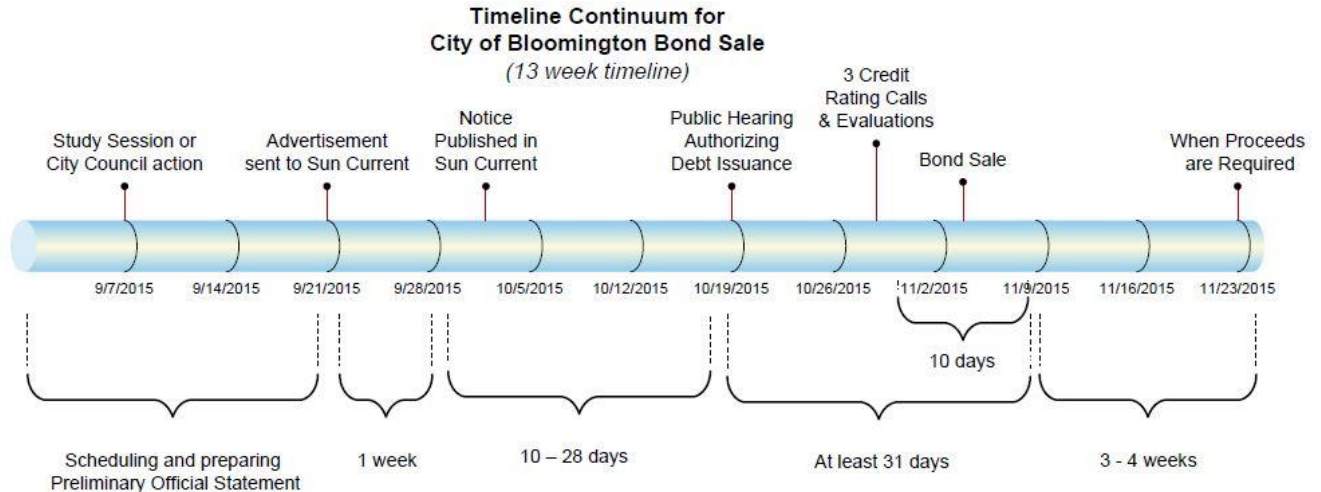
GRAPH #3 – Total Debt Outstanding and Projected

Project Process-

The majority of significant sized capital improvements are usually listed within the 5-year Capital Improvement Plan (CIP). This annual document will list out the funding sources available to fund the capital improvement. Should the proposed charter change move forward, any future capital projects that would utilize this general obligation funding source would be listed within this CIP document. The approval of the CIP document has multiple steps. First a Council Study Session, then a Planning Commission meeting and approval, and then a Council Public Hearing for official document approval. For each of these steps the draft CIP document is available to the general public for at least a two month (60 day) period. Approval of the CIP document does not automatically approve the individual capital project that may utilize this general obligation bonding authority. Each project over \$100,000 must be brought to the Council for their consideration and possible approval.

Time Sensitivity

It is in the City's best interest to sell bonds with the best opportunity to get the lowest rate and not have a great deal of competition on that day in the market. Extending the reverse referendum past a 30 day market window adds greater volatility to the estimated bond sale rates provided by the Financial Advisor. When the City prepares for the issuance of debt the following is the general timeline:



### ***Recommendation:***

Staff is recommending that the Charter Commission approve the resolution of the proposed charter change for general obligation bonding authority as written due to:

#### 1. 30 Day Reverse Referendum

- For the proposed general obligation bonds the 30 day referendum is not required by statute. The additional restriction added above state requirement of the 30 day reverse referendum is consistent with other types of bond restrictions as stated in the memo.

#### 2. Super Majority

- For the proposed general obligation bonds the super majority vote of 5 of 7 council members is not required by statute. However, this additional restriction of a super majority approval (5 of 7 council members) is consistent with the more conservative restrictions placed on other bonding types.

#### 3. Bonding Amount Constraints

- Current and future Councils should be able to evaluate any proposed bonding under this authority based on the merits of the specific capital improvement. Additional restrictions on issuing these general obligation bonds should not be placed within the Charter. Should Council desire greater restrictions on bond size or type of capital improvement the debt policy would be the appropriate policy to change.